

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2015/2016

BFN2094 – CORPORATE RISK MANAGEMENT
(All sections / Groups)

31st MAY 2016
2.30 p.m.- 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Questions paper consists of 2 pages with 4 Questions only.
2. Attempt **ALL** questions.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Below are the loss distributions for Jack and Jill.

	Probability of Loss Outcomes	Jack	Jill
Loss Outcome #1	0.15	RM1,500	RM1,000
Loss Outcome #2	0.85	RM0	RM100

(a) What is Jack's expected loss and standard deviation of expected loss? (7 marks)

(b) What is Jill's expected loss and standard deviation of expected loss? (7 marks)

Jack's and Jill's outcomes are independent of one another, so they decide to form a risk pool and share the losses equally. Construct a table displaying the Jack's portion of the possible outcomes and the probabilities of the sharing arrangement.

(16 marks)

(c) What is the expected loss and standard deviation of expected loss for Jack's outcome from the sharing arrangement? (10 marks)

(Total: 40 marks)

QUESTION 2

Betty Smiley and Gary Happy have the following expected claims distributions:

	Loss (RM)	Probability of Loss
Betty Smiley	10,000	0.10
	5,000	0.20
	1,000	0.30
	0	0.40
Gary Happy	10,000	0.05
	5,000	0.10
	1,000	0.15
	0	0.70

Continued...

(a) What are the expected claims costs for Betty Smiley and Gary Happy respectively? (8 marks)

(b) What is the expected average claims cost per policy for a pool in which 50% of the participants have claims distributions identical to Betty Smiley and 50% have claims distributions identical to Gary Happy. (3 marks)

(c) If insurers cannot distinguish Gary Happy from Betty Smiley, what is the potential problem with charging everyone a premium equal to the expected average claims costs? (4 marks)

(Total: 15 marks)

QUESTION 3

Below is the loss control expenditures distributions.

Loss Control Expenditures (RM)	Number of Worker Injuries	Average Injury Severity (RM)
0	200	
50,000	170	
100,000	148	
150,000	130	
200,000	122	
250,000	118	

Determine what level of loss control spending should be undertaken? (20 marks)

(Total: 20 marks)

QUESTION 4

a) Briefly discuss **FIVE (5)** factors affecting the demand for insurance. (20 marks)

b) Skewness measures what characteristic of a loss distribution? Why are skewed distributions relevant to risk managers? (5 marks)

(Total: 25 marks)

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